

How to estimate CPM costs at landfills

By Max Spedding

AS YOU are well aware, the Carbon Pricing Mechanism (CPM), which comes into effect on 1 July 2012, involves particular complexities for the waste management sector. This is because as methane emissions are generated over a long time frame – up to forty years – from when waste is landfilled.

The need for the industry to overcome these complexities and accurately estimate the current and future costs to their businesses that are, or will be, attributable to the CPM (whether directly or indirectly) is intensified by the prohibitions against false, misleading or deceptive carbon pricing claims under the Australian Consumer Law (ACL).

The Australian Landfill Owners Association (ALOA) has consulted widely over the past six months with government, regulators, private and local government landfill owners and landfill users with a view to providing guidance on how to estimate the current

and future costs to their businesses that are, or will be, attributable to the CPM.

We are now pleased to provide members, and *Inside Waste* readers with the following guidance as a consequence of those discussions.

A methodology for estimating the direct CPM impact

ALOA offers the following methodology for estimating the direct CPM impact on the price of its goods and services:

- 1) Determine if the landfill's emissions are or will soon exceed the CPM threshold¹ of 25,000 tonnes CO₂-e per annum².
- 2) Establish what waste types are received at the landfill – for example, Domestic, Dry Commercial, Wet Commercial, Construction, Special or Inert.
- 3) Determine the climatic zone where the landfill is located.

4) Determine the landfill's gas collection efficiency³ against the landfill's 'NGER' gas generation estimate.

5) Select an appropriate cash discount rate and tax position, taking into account the landfill owner's circumstances.

6) Select the future carbon price scenario on which to base the landfill's future carbon cost estimation. ALOA notes that one resource to which may be useful is the Treasury modeling of the Carbon Price that was updated on 21 September 2011, accessible via the archives on the Federal Treasury website.

7) Calculate the total carbon liability for waste received from 1 July 2012 using the following formula:

$$\text{Liability} = \text{waste emission estimate} \times (1 - \text{gas collection efficiency}) \times \text{future carbon cost}$$

The above methodology may be used as *one of the tools* for landfill operators in independently estimating the direct CPM impact on their respective businesses.

As components of the above methodology may change over time (eg. waste composition and volume, abatement initiatives, gas capture efficiency, future carbon prices), it will be important to regularly review, and if necessary, update their direct CPM cost estimates.

Accurately representing the carbon liability

In light of the Australian Consumer Law's prohibition of false, misleading or deceptive representations, landfill operators must ensure that they communicate the impact of the carbon price on the price of their goods and services accurately and truthfully. Further, the carbon price claim must be able to be substantiated.

In circumstances where landfill operators have incorporated the future carbon cost into the price of its landfill services, it is important that they accurately attribute the source of that estimation.

For example, if a member bases its landfill's future carbon cost estimation on the Treasury modeling referred to above, it should clearly attribute the estimation to that source.

ALOA encourages its members to keep records of the basis upon which



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they estimate the impact of a carbon price on their direct and indirect costs. Those records will, amongst other things, assist you in substantiating your communication of those costs if necessary.

Avoid discussing the CPM impact with your competitors

Finally, and importantly, it is prudent that ALOA provides a reminder that the Competition and Consumer Act 2010 prohibits agreements or understandings between competitors involving prices.

The Australian Competition and Consumer Commission's recent "Business Snapshot" entitled "Carbon price claims: dealing with your suppliers and competitors" provides some helpful guidance on the topic.

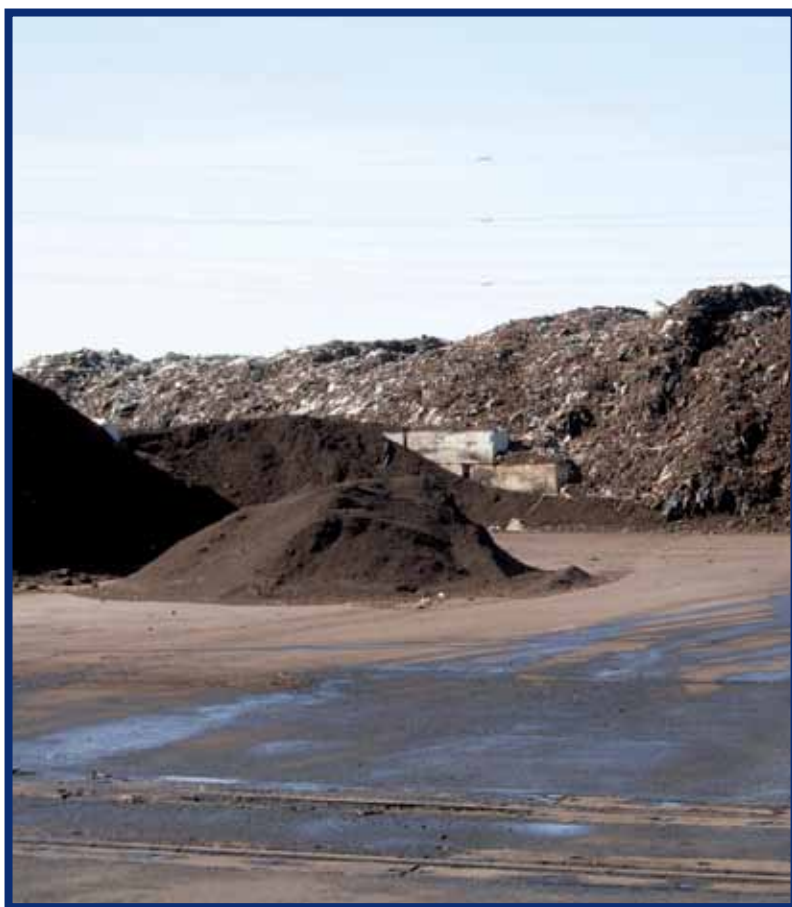
Footnotes

1. To determine whether the threshold of 25,000 tonnes CO₂-e is exceeded – emissions from both legacy waste (pre 1 July 2012 waste) and non-legacy waste (post 1 July 2012 waste) must be counted.
2. The current threshold for coverage of landfills under the CPM is 25,000 CO₂-e. The Government will review in 2015 whether this threshold should be lowered to 10,000 CO₂-e. The Government has confirmed that if the threshold is lowered, there will be no retrospective liability.
3. To ensure consistency between the waste emission estimates and the gas collection efficiency it is necessary to adjust the gas collected for oxidation:

$$(\text{Gas Collected} \times 0.9) / \text{NGER gas emissions.}$$



“ In light of Australian Consumer Law ... landfill operators must ensure that they communicate the impact of the carbon price on the price of their goods and services accurately and truthfully. ”



Landfill manager now need to manage about a new kind of airspace – emissions of greenhouse gases. Image Credit: Dr Georgina Davis.